



ARIZONA CORPORATION COMMISSION

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COMMISSION ORDERS RESTITUTION FOR INVESTORS DEFRAUDED BY “LICENSED” PROMOTERS AND OTHERS

PHOENIX, AZ—Amidst concern about promoters abusing their positions of trust to defraud investors, the Commission today ordered a licensed real estate agent, a licensed insurance agent, two former securities salesmen and others to pay over \$4.46 million in restitution and \$430,000 in administrative penalties. None of the promoters were registered to sell securities in Arizona.

The Commission ordered a Gilbert man and his companies to pay over \$3.48 million in restitution and \$150,000 in administrative penalties for fraudulently selling unregistered promissory notes. Although licensed to sell real estate, Dean A. Severns and his affiliated companies—Severns Properties, LLC, Severns Capital, LLC and J. Dean, LLC—were not registered to sell securities in Arizona. Severns claimed to have several years of investing experience with commercial real estate and several millions dollars of personal wealth. Further, Severns told investors that the investment was “bullet-proof,” that the promissory notes would be secured by real estate and backed by his personal wealth—including access to private money through a mortgage broker. The Commission, however, found these statements to be false. Severns told investors that using their home equity would result in substantial returns and, as a result, an elderly couple is now facing foreclosure on their home. In settling this case, Severns and his companies neither admitted nor denied the Commission’s findings, but agreed to the entry of the consent order.

In a separate case, the Commission sanctioned a former securities salesman, James Leroy Costello of Phoenix and his company, Costello & Associates-Financial, for defrauding at least 15 investors. Costello, who is a licensed insurance producer, is ordered to pay \$195,000 in restitution and \$75,000 in administrative penalties. Costello told investors that their money would be used to purchase viatical settlement contracts and in at least one instance, Costello showed an investor a copy of an insurance policy as evidence that he had used the investor's funds as promised. The Commission found, however, that Costello used investor funds to repay other investors and to make unauthorized expenditures. Additionally, Costello misrepresented to investors that he was a registered securities salesman, a certified investment adviser, and that the viatical settlement contracts he sold were exempt from registration, risk-free and guaranteed by a state insurance fund. Viatical settlement contracts, commonly known as “viaticals,” are considered to be high-risk, complex investments involving the sale of future death benefits of a terminally ill person’s life insurance policy.

In the next case, the Commission issued a default order against a former securities salesman and Scottsdale resident, Stanley Lane Boblett. The Commission ordered Boblett to pay \$500,000 in restitution and \$150,000 in administrative penalties for fraudulently selling unregistered investment contracts, shares of stock and promissory notes. As director of two Delaware-based companies, Pacific Coast Holding Company and Hall of Fame Partners, LLC, Boblett told investors that their money was going into business operations that produced beverages, digitized film and guitar stands. In one instance,

the Commission found that Boblett offered an instantaneous 100 percent return to investors. Instead of investing the money as promised, Boblett deposited it into accounts held by Pacific Coast Holding and Hall of Fame Partners and later expended a portion for his personal use and benefit.

Another case involved a Phoenix couple and their affiliated companies who agreed to pay \$290,150 in restitution and \$25,000 in administrative penalties for fraudulently selling unregistered promissory notes. Patrick Allen Roberts worked with his wife, Sheri L. Krouse, who owned and operated a used car lot business called Motors de Amigos and an auto finance company, Rock 'n R Car Company Enterprises. Through a series of newspaper ads, Roberts and Krouse solicited potential investors, promising a secured investment with above-market returns of at least 20 percent, but neither promoter is registered to sell securities in Arizona. The Commission found that the couple failed to adequately inform investors about the various risks associated with promissory notes and how their investment was being secured. To date, Roberts and Krouse have repaid at least \$114,387 to the investors. In settling this case, Roberts and Krouse neither admitted nor denied the Commission's findings, but agreed to the entry of the consent order.

The Commission also ordered restitution in the amount of \$32,336 and penalties of \$20,000 from Allen C. Stout and his company, Reserve Oil and Gas, for violations of the registration and anti-fraud provisions of the Securities Act. Through a website and brochures, the company offered investments in oil and gas wells claiming a "projected return on ownership investment is better than 10 – 1 over the life of the project," and that Stout had "over 25 years of experience in business management and oil and gas operations." His prior conviction of tax evasion was not disclosed. Reserve Oil and Gas and Stout were not registered to sell securities in Arizona and in addition to being required to pay restitution and penalties, Allen Stout and the company have been ordered to cease and desist securities sales activities in the state.

Caution for investors:

With the current state of the U.S. financial markets, the Arizona Corporation Commission is concerned that investors who are fearful of investing in the stock market may become receptive to unscrupulous promoters offering alternative investments with purported above-market returns. Even when investing with someone they know or with a professional claiming to have a "license," investors should verify the registration of sellers and investment opportunities and investigate disciplinary histories by contacting the Arizona Corporation Commission's Securities Division at 602-542-4242 or toll free in Arizona at 1-866-VERIFY-9. The Commission's investor education web site has additional helpful information at www.azinvestor.gov.

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